

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSALS NINE THROUGH FIFTEEN)

Docket No. RM2012-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO REPLY COMMENTS OF THE PUBLIC REPRESENTATIVE  
(December 14, 2011)

On December 12, 2011, the Public Representative filed Reply Comments discussing Proposals Twelve, Fourteen, and Fifteen.<sup>1</sup> In the interest of clarifying the record, the United States Postal Service hereby responds.

I. Proposal Twelve

In his initial comments, the Public Representative asserted that the approval of Proposal Seventeen would result in input sub system (ISS) and output sub system (OSS) costs no longer being available.<sup>2</sup> Based on this assertion, he recommended that the Commission reject Proposal Twelve. In its response, the Postal Service demonstrated that the Public Representative's assertion was mistaken and therefore requested that the Commission disregard his recommendation.

In his Reply Comments, the Public Representative modifies his position and now asserts that "the absence of distinct productivity measures for the ISS and OSS could throw into question the accuracy of the unit attributable costs of MAADC and AADC

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<sup>1</sup> Reply Comments of the Public Representative, Docket No. RM2012-1 (Dec. 12, 2011) ("PR Reply Comments").

<sup>2</sup> Comments of the Public Representative, Docket No. RM2012-1 (Dec. 5, 2011), at 5 ("if the Commission were to approve this proposal, costs associated with ISS and OSS would no longer be available").

letters proposed by the Postal Service in this docket.”<sup>3</sup> Based on this new assertion, the Public Representative recommends that the Commission “reject Proposal Twelve, as *submitted*, and request the Postal Service to modify the models based on the productivity measures for ISS and OSS it would use if the Commission were to accept Proposal Seventeen.”<sup>4</sup>

The Postal Service submitted Proposal Twelve in response to a specific directive from the Commission, in the FY 2010 Annual Compliance Determination, to disaggregate the cost estimates for non-automation machinable MAADC and AADC Standard Mail presort letters.<sup>5</sup> Proposal Twelve accomplishes the requested disaggregation. The Public Representative does not at all aver that Proposal Twelve fails to accomplish the requested disaggregation. Thus, the Public Representative has offered no legitimate reason as to why Proposal Twelve, as submitted, should be rejected.

Pending operation changes in the Management Operating Data System (MODS) will result in distinct ISS and OSS productivity measures no longer being available. Neither the rejection of Proposal Seventeen nor the rejection of Proposal Twelve can change this fact. The Postal Service will use aggregated productivity measures to deal with this situation. This issue can be addressed in the context of the Commission's

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<sup>3</sup> PR Reply Comments, at 2.

<sup>4</sup> *Id.* (emphasis in original).

<sup>5</sup> See FY 2010 Annual Compliance Determination, Docket No. ACR2010 (Mar. 29, 2011), at 110 (“The Commission is unable to evaluate the presort discount for non-automation AADC machinable letters..., and was unable to do so in the FY 2009 ACD. The avoidable cost could not be calculated because the Postal Service’s letter mail processing cost model only estimates costs for the combined non-automation machinable AADC and mixed AADC categories. *The Postal Service should develop the necessary cost data to permit a meaningful analysis of this discount*” (emphasis in original)).

consideration of Proposal Seventeen, rather than with regard to Proposal Twelve, which has nothing to do with changing productivity measures.

In the meantime, given that the Public Representative has not pointed to any defect in the improvement submitted by the Postal Service in Proposal Twelve, the Commission should move forward by approving the proposal.

## II. Proposals Fourteen and Fifteen

The Public Representative's objection to Proposals Fourteen and Fifteen appears to be that, because "Other Ancillary Services already receive a share of miscellaneous costs and waiting time costs, independent of the distribution of these costs to the products to which they are paired," Proposals Fourteen and Fifteen should not add waiting time costs and miscellaneous costs to the cost models for any products that are Other Ancillary Services.<sup>6</sup> If this is the Public Representative's objection, then his misunderstanding of the Proposals Fourteen and Fifteen models is even more fundamental than the Postal Service assumed in its initial response.<sup>7</sup>

The Postal Service agrees with the Public Representative that, in the Cost and Revenue Analysis (CRA), the aggregate attributable cost reported for all Other Ancillary Services includes a share of waiting time costs and miscellaneous costs. The CRA cost models are "top-down," meaning that they take all Postal Service costs at the end of the year, including the attributable waiting time costs and miscellaneous costs associated

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<sup>6</sup> PR Reply Comments, at 3.

<sup>7</sup> The Public Representative states that the Postal Service misunderstood his initial comments regarding Proposals Fourteen and Fifteen. If that is the case, it is because of the disjointed nature of the Public Representative's prose, which forced the Postal Service to fill in gaps by making assumptions regarding what the Public Representative was trying to say. Based on the Public Representative's clarification in his Reply Comments as to what his core argument is, it is apparent now that the Postal Service's assumptions were overly generous.

with window service, and divide them up among products. The products that are subsumed into the CRA's Other Ancillary Services line are each too small to be accurately represented on an individual basis in the CRA's models. This is why the CRA presents them in aggregate form as Other Ancillary Services.

As a separate matter, it is useful to the Commission and to the Postal Service to analyze each of these products on a disaggregated, individual level as well. To facilitate analyses of these products on an individual level, the Postal Service uses "bottom-up" models, which calculate costs based on study-derived estimates of various cost drivers for each product. The models covered by Proposals Fourteen and Fifteen are bottom-up models. They do not feed into the CRA.<sup>8</sup> Because these products are too small for the Postal Service's data systems to accurately develop their costs, the bottom-up cost approach is used to estimate the costs of these products in lieu of CRA-determined estimates. In order for these bottom-up models to mirror the CRA approach to costing, they should include waiting time costs and miscellaneous costs, and, in their current, Commission-approved form, they do not. Proposals Fourteen and Fifteen correct this oversight by adding waiting time costs and miscellaneous costs.

To be clear, approving Proposals Fourteen and Fifteen will have no effect on the Other Ancillary Services line in the CRA. These proposals will make the bottom-up models more closely mirror the approach used in the CRA. Given that the Public Representative's objection to Proposals Fourteen and Fifteen stems from a fundamental

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<sup>8</sup> The Public Representative's failure to grasp this basic point is underscored by his repeated references to Cost Segment 3.2 in USPS-FY10-NP14. The models covered by Proposals 14 and 15 have nothing to do with USPS-FY10-NP14. They are contained in USPS-FY10-28 and USPS-FY10-NP26.

misunderstanding of what models are at issue in the proposals, the Commission should ignore his recommendations and approve the proposals.

### III. Conclusion

It is unfortunate that the Commission's consideration of the Docket No. RM2012-1 proposals has been delayed by the very basic misunderstandings on the part of the Public Representative documented by the Postal Service both above and in its previous response. The Postal Service hopes that the Commission can now turn to considering the proposals and issue a ruling in time for the forthcoming FY 2011 ACR.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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